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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Good News Or Bad ?

Despite the apparent good news heralded by the strong surge in industrial production in October, it would be more appropriate to view this gain against the backdrop of sluggish retail sales and still lofty "real" inventory-sales ratios. For while businesses may be able to step up their production levels in the near term, they cannot do so for long if the output goes unsold and instead piles up in manufacturing and trade inventories.

In October, industrial production rose 1.6 per cent compared with month-earlier levels. This was the third strong gain in a row and the largest monthly advance since April, 1978. Although the production increases were broadly distributed throughout a wide variety of industries, some of the greatest gains were posted by the automobile, steel and home goods industries. Automobile assemblies were at a 6.7 million-unit annual rate in October, well above the 6.0 million-unit assembly rate recorded in September. Production of home goods—such as furniture and appliances—increased almost two per cent in October, undoubtedly buoyed by the runup of new housing starts in earlier months.

Unfortunately, while the factories may be producing more, households are not buying more. Retail sales turned soft in October, declining at least one per cent month-over-month after adjustment for seasonal variation and inflation. Perhaps most important, the largest sales slowdowns were concentrated in those areas which will either immediately or eventually affect those industries which posted the largest production gains in October. Auto sales slumped 2.1 per cent in October after rising 5.2 per cent in the preceding month, an ominous sign for both the automobile and steel industries. Similarly, sales of household appliances and furniture remained sluggish, a development that could presage significant production cutbacks in coming months by the home goods manufacturers.

Finally, if higher output levels in these key industries are indeed beginning to back up once again, they come on top of already hefty stocks relative to sales. In "real" terms, the ratio of inventories-to-sales at the manufacturing level for all durable goods industries stood at 2.45 in September, almost ten per cent higher than year-earlier levels and about where it stood near the trough of the 1973-75 recession.

Interest Rates Climb . . .

The rapid ascent of short- and long-term interest rates sputtered recently amid a variety of signs that the pace of economic activity was slowing and a spreading euphoria among financial market participants regarding the economic policy implications of the recent elections. Among the more important indicators that economic weakness continues to persist was the downturn in retail sales, the very sluggish pace of new automobile sales and a sharp drop in new building permits issued, all occurring in October. In addition, the pronouncements of the President-elect and his advisors that government spending will be reduced have been favorably received by many investors who seem increasingly to believe that Federal government finances may finally be put in order.

But despite the slowing of economic activity and the transitory rally occurring in the financial markets, many of the same factors which have been propelling interest rates upward continue uncorrected and may have even deteriorated slightly. First, money supply growth is still far too rapid and clearly jeopardizes the ability of the Federal Reserve to achieve its 1980 monetary growth targets. During the past 13 weeks, for example, M-1A has advanced at a seasonally adjusted annual rate of 12 per cent while M-1B has expanded at a 14.5 per cent annual rate. Although the year-to-date expansion of M-1A is still within its target growth boundaries, M-1B growth is not, for it is well above its upper target boundary of 6.5 per cent.

Second, business loan demand remains strong. Commercial and industrial loans at large weekly reporting banks expanded at an almost 14 per cent seasonally adjusted annual rate during the past month and at an approximately 19 per cent annual rate during the past three months. Finally, the rate of inflation remains at unacceptably high levels. After posting a sizable 0.7 per cent month-over-month gain in August, the rate of consumer price inflation worsened in September, advancing one per cent month-over-month, or at a 12.7 per cent compounded annual rate of change. Similarly, the Producer Price Index surged ahead in October,

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rising 0.8 per cent month-over-month, or at a 10.6 per cent compounded annual rate.

In light of these developments it appears likely that the Federal Reserve will maintain a relatively restrictive monetary policy stance—or even continue to firm policy slightly—at least through yearend. Thus, although short-term interest rates may be near their peaks, they are probably not at them yet, and could rise somewhat further before dropping back in early 1981.

. . . Still Further

Indicative of the firmer policy stance which has characterized central bank actions in recent weeks was the decision by the Federal Reserve to allow the Federal funds rate (the cutting edge for all other short-term interest rates) to rise above the upper boundary of the last officially announced target range of 8 to 14 per cent. During the week ending November 7, in fact, the funds rate averaged almost 14.80 per cent. Since then, however, the funds rate has declined slightly. It averaged 14.05 per cent during the week ending November 14, which is still more than 150 basis points above the weekly average prevailing only four weeks ago.

In the Treasury bill market, rates continued to climb. This reflects the impact of a firmer monetary policy in general, and the increased supply of these instru-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 11/12/80	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	129.599	– .526	+ 6.758
Member Bank Borrowings	2.067	+ .189	+ .206
Float	4.511	+ 1.473	– 1.249
Total Reserve Bank Credit	143.417	+ 1.530	+ 7.925
Treasury Deposits with Federal Reserve Banks	3.062	+ .771	+ .211
Currency Outside Banks	120.249	+ 1.299	+10.271
Member Bank Reserves:			
Required	41.686	– .346	– .936
Excess (Deficiency)	.574	+ .007	+ .277
Total Reserves Held	42.260	– .339	– .659
Net Borrowed Reserves	1.397	+ .158	– .020
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	86.334	+ .484	+ 9.281

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A (11/5/80)	387.2	+ 4.5	+ 4.8
M-1B (11/5/80)	411.9	+ 7.3	+ 6.7
M-2 (October '80)	1,653.3	+ 10.0	+ 9.5
L (August '80)	2,271.8	+ 10.3	+ 9.2

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 11/21/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.75%	13.70%	12.70%
* Federal Agencies	14.80	13.94	14.10
* Project Notes–Taxfree (46% Taxable Equivalent)	12.50	15.28	15.28
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	16.20	15.90	

‡Finance Company Paper–Prime

5- 14 days	14.87%
15- 29 days	15.25
30- 59 days	15.25
60-179 days	13.75
180-270 days	13.75

‡* Bankers' Acceptances

Dec.	15.00%
Jan.	15.00
Feb.	15.50
Mar.	15.00
Apr.	14.90
May	14.60

‡Industrial Paper–Prime

30- 89 days	15.87%
90-120 days	15.87

† Federal Funds Effective Rate 17.50%

‡Discount Basis. * Subject to Availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,587	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	0.9%	– 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Sept '80	12.0%	8.4%	14.4%
Change in Producer Prices*	Oct '80	9.6%	– 2.4%	13.2%
Civilian Employment (Thousands of Persons)†	Oct '80	97,176	97,207	97,474
Unemployment as % of Civilian Labor Force†	Oct '80	7.6%	7.5%	5.9%
Personal Income*	Oct '80n	$ 2,190	$ 2,167	$ 1,981
Leading Indicators Composite Index (1967=100)†	Sept '80	133.6	130.5	140.1
Industrial Production Index (1967=100)†	Oct '80n	146.0	143.7	152.7
Net Change in Consumer Installment Credit†	Sept '80	$ 1.45	$ 0.02	$ 4.45
U.S. Merchandise Trade Balance†	Sept '80	–$ 0.76	–$ 0.13	–$ 2.58
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Oct '80n	1,569	1,545	1,710
New Construction Expenditures*	Sept '80	$ 222.0	$ 215.1	$ 235.3
Total Business Inventories†	Sept '80	$ 454.5	$ 452.0	$ 418.5
Total Business Sales†	Sept '80	$ 317.6	$ 308.0	$ 296.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

ments in particular, as a result of the massive financing needs of the Treasury. As a consequence, the average discount rate for three-month bills reached 13.51 per cent at the November 10 auction, 217 basis points above auction rates prevailing only four weeks ago. Similarly, six-month bill rates rose to 13.23 per cent, 195 basis points above month-earlier levels. Finally, three-month certificate of deposit rates continued to climb during the past month. They reached 15.10 per cent on November 14, 240 basis points above the rate prevailing four weeks ago. This, in turn, produced further increases in the prime lending rate, which has now reached 17.00 per cent.

But despite the sharp increases in the prime rate and commercial paper rates, most new corporate borrowing seems to be largely confined to the banks. During the four weeks ending November 5, commercial and industrial loans outstanding, adjusted for seasonal variation, rose almost $3 billion. Outstanding commercial paper for nonfinancial corporations continued to drop, however, declining a seasonally adjusted $695 million during the four weeks ending November 5. Interestingly, outstanding commercial paper for nonfinancial corporations in early November was almost ten per cent below the peak level reached in July. This might be a reflection of the more aggressive pricing postures adopted by commercial banks in light of the competitive threat posed by the paper market. ■

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/5/80)	100,463	+ 1,082	+ 9,651
New York City (11/5/80)	24,383	+ 481	+ 5,526
Commercial Paper (11/5/80)	124,283	– 556	+13,075

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/5/80)	169,166	+ 2,998	+14,652
New York City (11/5/80)	49,593	+ 1,028	+ 4,201

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/5/80)	417,631	+ 5,075	+26,331
New York City (11/5/80)	98,017	+ 1,431	+10,239

Financial Markets

	Friday 11/21/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.00%	+ 1.58	+ 2.80
180-Day Bills†	15.13	+ 1.93	+ 2.53
Longest Bills†	14.59	+ 2.25	+ 2.15
Recent Issues:			
12 1/8s 10/31/82	13.88	+ 1.53	
12 1/8s 9/30/84	13.28	+ .82	
13s 11/15/90	13.12	+ .25	
12 3/4s 11/15/10	12.60	+ .21	
Municipals:			
Bond Buyer–20 Bond Index* (11/20/80)	9.50%	–0–	+ 2.12
Blue List Total ($ Million)	$ 8.32	+ $120	+ $ 17
30-Day Visible Supply ($ Million)	$1,716	– $945	+ $ 447
Total	$2,548	– $825	+ $ 464
Corporates:			
Moody's Aa Composite (11/20/80)	13.28%	+ .02	+ 2.01
Money Mgr.–30-Day Supply ($ Million)	$4,632	+ $754	+ $2,915
Stocks:			
Dow-Jones Averages:			
Industrials	989.93	+ 3.58	+ 178.16
Transportation	413.60	+ 21.64	+ 167.93
Utilities	116.21	– 0.55	+ 11.27
65 Stocks	384.15	+ 7.24	+ 94.77
Standard and Poor's 500 Stocks	139.11	+ 1.96	+ 35.32
N.Y.S.E. Composite Index	80.17	+ 1.21	+ 20.51
N.Y.S.E. Avg. Daily Vol. for Week (000's)	64,137	+ 8,701	+ 32,014

* 46% Taxable Equivalent 17.59%.

† Bond Equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/21/80	Week Ago
Overnight	17.00%	14.38%
1 month	17.00	15.25
3 month	16.94	15.63
6 month	16.19	15.25
1 year	15.06	14.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.05%	12.76%
Long Term (7 to 15 yrs.)	13.15	12.76

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/21/80)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03205	31.20
Canada	.8437	1.1853
Denmark	.1692	5.9100
France	.2241	4.4630
Germany	.5202	1.9223
Italy	.001093	914.50
Japan	.004678	213.75
Mexico	.04316	23.17
Netherlands	.4793	2.0865
Switzerland	.5769	1.7333
U.K.	2.3645	.4229

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